

Statistics of Income Studies of Individual Income and Taxes, 1913-1992

by Peter Sailer

This article commemorates 80 years of Statistics of Income (SOI) data based on individual income tax returns. The first data were for 1913, the year when modern U.S. income taxation began, and were included in the report, *Statistics of Income—1916*, published by the Internal Revenue Service (IRS) on June 1, 1918 [1]. Authority to publish SOI data was granted by the Revenue Act of 1916 and has been renewed since then through successive amendments to the tax laws.

Article I, Section 8 of the U.S. Constitution gave Congress the power to “lay and collect taxes, duties, imposts and excises...; but all duties, imposts and excises shall be uniform throughout the United States.” The first income tax was instituted by Congress in 1861 to help defer the cost of the Civil War. It was allowed to expire in 1872. In 1894, Congress reinstituted the income tax, but in 1895, the U.S. Supreme Court ruled it was unconstitutional on grounds that it was a direct tax and had not been apportioned equally among the States according to population. It was not until February 25, 1913, with the ratification of the Sixteenth Amendment to the Constitution, that the income tax became constitutional again. The Sixteenth Amendment provided that “The Congress shall have power to lay and collect taxes on incomes ... without apportionment among the several States....”

Given the fact that “apportionment among the several States” was a major issue in the debate over the income tax, it is not surprising that the early reports in the *Statistics of Income* series strongly emphasized State data. Practically all of the items available at the national level were also shown for each State. The principal items shown were net income (including nine separate sources of income), tax, and “exemptions for normal tax.” Classifiers, aside from States, were size of net income, marital status (“conjugal condition”), and (for 1916 only) occupation of taxpayer.

Over the years, the State data waned in importance in the annual *Statistics of Income* reports, until they disappeared entirely in the report for Tax Year 1983. On the other hand, the analyses of sources of income, types of deductions, and rates of taxation became more and more detailed. In addition, a myriad of special studies focused in more closely on the treatment of various types of income. It should be noted that, due to popular demand, the publication of State data classified by size of adjusted gross income was resumed in the Fall 1990 issue of the *Statistics of Income Bulletin*, with the publication of data for Tax Years 1986-1988 [2].

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Population Coverage by Individual Income Tax Returns

One of the reasons for the shifting emphasis of the Statistics of Income program has been the increasingly comprehensive coverage of the population by the income tax. When the income tax was reinstated for 1913, it

When the income tax was reinstated for 1913, it applied only to the top 0.8 percent of the population. By 1948 though, the population coverage had grown to 89 percent.

basically applied only to the very wealthy. The 358,000 returns filed represented approximately 643,000 taxpayers (no dependent exemptions were allowed), or about 0.8 percent of the population [3]. By 1948, the 131.3 million exemptions (other than age and

blindness) claimed represented 89 percent of the population (see Figure A). This development transformed *Statistics of Income* from mainly a source of tax information to a major source of economic information as well.

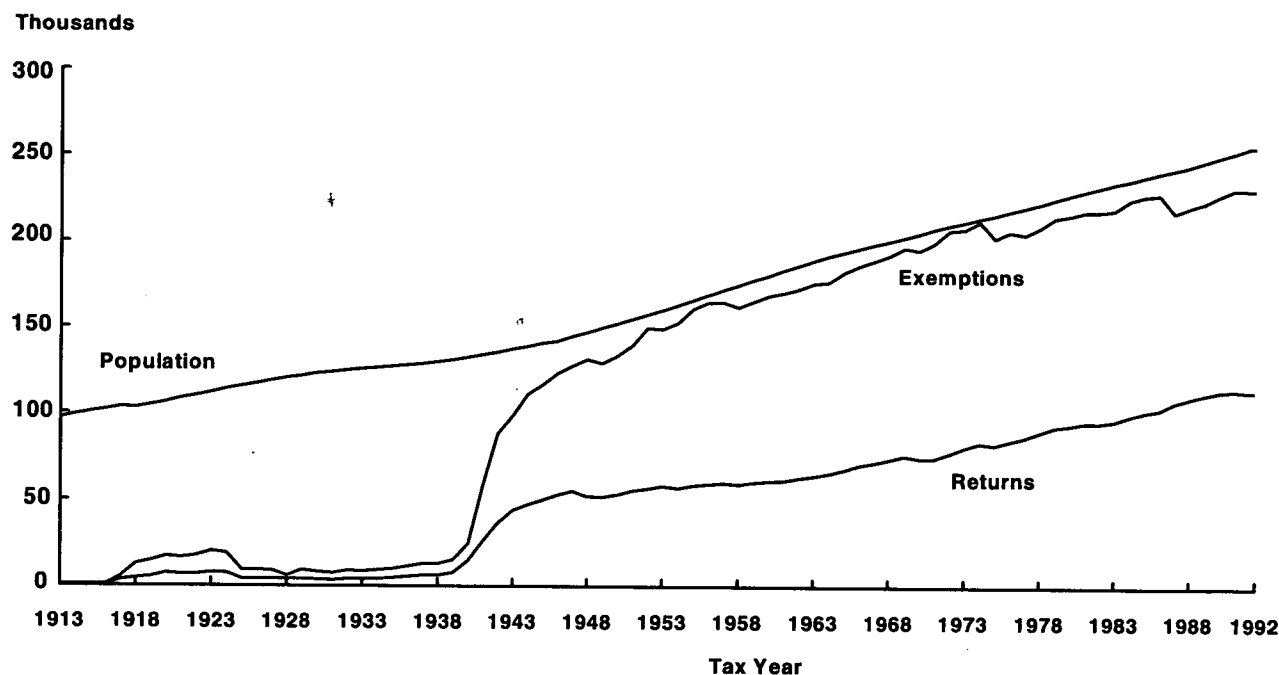
The increased coverage was related mainly to changes in the filing requirements (see Figure B). For 1913, when per capita personal income stood at \$333, a “net income” (i.e. income after all deductions allowed for tax purposes, except personal exemptions) of \$3,000 was required before a return had to be filed. On the other hand, in 1948, when per capita personal income stood at \$1,426, the filing requirement was met by anybody with “gross income” (i.e., income before deductions for tax purposes and exemptions) of only \$600. While the filing requirements started to relax beginning with Tax Year 1970 (when the filing requirement was raised to \$1,700 for single person, \$2,300 for married couples, even higher in the case of the elderly), various factors kept a large proportion of the population filing tax returns. These factors included income tax withholding by employers (which caused individuals with no tax liability to file for refunds), the “earned income credit” (which caused low-income earners with children to file returns in order to obtain this refundable credit), and the self-employment tax (which required individuals with \$400 or more of net income from self-employment to file for social security tax purposes).

One caveat should be noted when comparing exemptions other than age and blindness to the population as a whole: prior to 1987, some individuals are counted twice in the exemptions data. The relaxed filing requirements beginning in 1970 did not apply to children who could be claimed as exemptions on their parents’ returns and who also received unearned income in their own names. These children were frequently required to file their own returns,

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Figure A

U.S. Population, Number of Exemptions, and Number of Returns, Tax Years 1913 to 1992



NOTE: Number of returns and exemptions are not comparable for all years. See footnote 3 at the end of this article for additional information.

on which they could claim their own exemptions. Beginning with Tax Year 1987, this double counting of exemptions was abolished by the Tax Reform Act of 1986, which prohibited dependents filing their own returns from claiming exemptions for themselves. Moreover, social security numbers had to be reported for all but the very youngest children claimed as exemptions. These two changes resulted in a decrease in exemptions (other than age or blindness) of 10.5 million between 1986 and 1987. At least 8 million of this decrease can be attributed to the elimination of the double counting [4].

Additional Studies on the Individual Income Tax

When the SOI program began, only one (annual) report was planned. It contained separate tables on individuals (which included fiduciaries, such as estates) and on corporations. Corporations were split out into a separate report beginning with Tax Year 1934. Over the years, SOI and its predecessor organizations have responded to customers' demands for additional products in the individual income tax area by issuing several series of special studies (see Figure C). Beginning in 1981, most of these special studies have been released as part of the *Statistics of Income Bulletin*.

Preliminary Reports

The first series of special studies, beginning with Tax Year 1928, was the "Preliminary Report," containing a limited number of data items, based on a sample of returns processed by late September. In producing the data, weights were adjusted to make up for returns the Service still expected to receive by the end of December, based on the previous year's October through December filings. While the major purpose of this report was to assist the Department of the Treasury in planning the Federal budget, the data have also been made available to the public—originally as a special report, more recently as part of an article in the *SOI Bulletin*.

Sales of Capital Assets Studies (SOCA)

Gains from the sales of property, generally referred to as "sales of capital assets," have been taxable since 1913. However, from 1913-1916, the only mention made of such gains in the tax return package was the instruction that business income was to include "dealings in property" along with income from "business, trade, and commerce." For 1917, a separate schedule (Schedule C) was created to report year of acquisition, cost, sales price, and nature of property. For 1921, the notion of special tax treatment for

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Figure B

Per Capita Income, Filing Requirements, and Value of Personal Exemptions, 1913-1992

| Tax year | Per capita income ¹ | Filing requirements (gross income unless otherwise noted) | | | Value of exemptions | | | |
|-----------|--------------------------------|---|--------------------|---|---------------------|--------------------|------------|------------------|
| | | Single persons | Married couples | Plus this amount for single/couple age 65 or over | First taxpayer | Second taxpayer | Dependents | Age or blindness |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| 1913..... | 333 | 3,000 ² | 3,000 ² | N/A | 3,000 | 1,000 | N/A | N/A |
| 1914..... | 319 | 3,000 ² | 3,000 ² | N/A | 3,000 | 1,000 | N/A | N/A |
| 1915..... | 325 | 3,000 ² | 3,000 ² | N/A | 3,000 | 1,000 | N/A | N/A |
| 1916..... | 388 | 3,000 ² | 3,000 ² | N/A | 3,000 | 1,000 | N/A | N/A |
| 1917..... | 481 | 1,000 ² | 2,000 ² | N/A | 1,000 | 1,000 | 200 | N/A |
| 1919..... | 622 | 1,000 ² | 2,000 ² | N/A | 1,000 | 1,000 | 200 | N/A |
| 1920..... | 689 | 1,000 ² | 2,000 ² | N/A | 1,000 | 1,000 | 200 | N/A |
| 1921..... | 572 | 1,000 ³ | 2,000 ³ | N/A | 1,000 | 1,500 ³ | 400 | N/A |
| 1922..... | 563 | 1,000 ³ | 2,000 ³ | N/A | 1,000 | 1,500 ³ | 400 | N/A |
| 1923..... | 639 | 1,000 ³ | 2,000 ³ | N/A | 1,000 | 1,500 ³ | 400 | N/A |
| 1924..... | 641 | 1,000 ³ | 2,500 ³ | N/A | 1,000 | 1,500 | 400 | N/A |
| 1925..... | 648 | 1,500 ³ | 3,500 ³ | N/A | 1,500 | 2,000 | 400 | N/A |
| 1926..... | 677 | 1,500 ³ | 3,500 ³ | N/A | 1,500 | 2,000 | 400 | N/A |
| 1927..... | 669 | 1,500 ³ | 3,500 ³ | N/A | 1,500 | 2,000 | 400 | N/A |
| 1928..... | 662 | 1,500 ³ | 3,500 ³ | N/A | 1,500 | 2,000 | 400 | N/A |
| 1929..... | 691 | 1,500 ³ | 3,500 ³ | N/A | 1,500 | 2,000 | 400 | N/A |
| 1930..... | 609 | 1,500 ³ | 3,500 ³ | N/A | 1,500 | 2,000 | 400 | N/A |
| 1931..... | 519 | 1,500 ³ | 3,500 ³ | N/A | 1,500 | 2,000 | 400 | N/A |
| 1932..... | 393 | 1,000 ³ | 2,500 ³ | N/A | 1,000 | 1,500 | 400 | N/A |
| 1933..... | 366 | 1,000 ³ | 2,500 ³ | N/A | 1,000 | 1,500 | 400 | N/A |
| 1934..... | 417 | 1,000 ³ | 2,500 ³ | N/A | 1,000 | 1,500 | 400 | N/A |
| 1935..... | 467 | 1,000 ³ | 2,500 ³ | N/A | 1,000 | 1,500 | 400 | N/A |
| 1936..... | 529 | 1,000 ³ | 2,500 ³ | N/A | 1,000 | 1,500 | 400 | N/A |
| 1937..... | 567 | 1,000 ³ | 2,500 ³ | N/A | 1,000 | 1,500 | 400 | N/A |
| 1938..... | 519 | 1,000 ³ | 2,500 ³ | N/A | 1,000 | 1,500 | 400 | N/A |
| 1939..... | 549 | 1,000 ³ | 2,500 ³ | N/A | 800 | 1,500 | 400 | N/A |
| 1940..... | 586 | 800 | 1,500 | N/A | 750 | 1,200 | 400 | N/A |
| 1941..... | 711 | 750 | 1,200 | N/A | 500 | 750 | 400 | N/A |
| 1942..... | 907 | 500 | 1,200 | N/A | 500 | 700 | 350 | N/A |
| 1943..... | 1,102 | 500 ⁴ | 1,200 ⁴ | N/A | 500 | 700 | 350 | N/A |
| 1944..... | 1,188 | 500 | 500 ⁵ | N/A | 500 | 500 | 500 | N/A |
| 1945..... | 1,215 | 500 | 500 ⁵ | N/A | 500 | 500 | 500 | N/A |
| 1946..... | 1,257 | 500 | 500 ⁵ | N/A | 500 | 500 | 500 | N/A |
| 1947..... | 1,319 | 500 | 500 ⁵ | N/A | 500 | 500 | 500 | N/A |
| 1948..... | 1,426 | 600 | 600 ⁵ | N/A | 600 | 600 | 600 | 600 |
| 1949..... | 1,381 | 600 | 600 ⁵ | N/A | 600 | 600 | 600 | 600 |
| 1950..... | 1,502 | 600 | 600 ⁵ | N/A | 600 | 600 | 600 | 600 |
| 1951..... | 1,662 | 600 | 600 ⁵ | N/A | 600 | 600 | 600 | 600 |
| 1952..... | 1,743 | 600 | 600 ⁵ | N/A | 600 | 600 | 600 | 600 |
| 1953..... | 1,820 | 600 | 600 ⁵ | N/A | 600 | 600 | 600 | 600 |
| 1954..... | 1,804 | 600 | 600 ⁵ | 600 ⁵ | 600 | 600 | 600 | 600 |
| 1955..... | 1,903 | 600 | 600 ⁵ | 600 ⁵ | 600 | 600 | 600 | 600 |
| 1956..... | 2,007 | 600 | 600 ⁵ | 600 ⁵ | 600 | 600 | 600 | 600 |
| 1957..... | 2,081 | 600 | 600 ⁵ | 600 ⁵ | 600 | 600 | 600 | 600 |

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Figure B

Per Capita Income, Filing Requirements, and Value of Personal Exemptions, 1913-1992-Continued

| Tax year | Per capita income ¹ | Filing requirements (gross income unless otherwise noted) | | | Value of exemptions | | | |
|-----------|--------------------------------|---|------------------|---|---------------------|-----------------|------------|------------------|
| | | Single persons | Married couples | Plus this amount for single/couple age 65 or over | First taxpayer | Second taxpayer | Dependents | Age or blindness |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| 1958..... | 2,109 | 600 | 600 ⁵ | 600 ⁵ | 600 | 600 | 600 | 600 |
| 1959..... | 2,209 | 600 | 600 ⁵ | 600 ⁵ | 600 | 600 | 600 | 600 |
| 1960..... | 2,263 | 600 | 600 ⁵ | 600 ⁵ | 600 | 600 | 600 | 600 |
| 1961..... | 2,322 | 600 | 600 ⁵ | 600 ⁵ | 600 | 600 | 600 | 600 |
| 1962..... | 2,430 | 600 | 600 ⁵ | 600 ⁵ | 600 | 600 | 600 | 600 |
| 1963..... | 2,517 | 600 | 600 ⁵ | 600 ⁵ | 600 | 600 | 600 | 600 |
| 1964..... | 2,661 | 600 | 600 ⁵ | 600 ⁵ | 600 | 600 | 600 | 600 |
| 1965..... | 2,846 | 600 | 600 ⁵ | 600 ⁵ | 600 | 600 | 600 | 600 |
| 1966..... | 3,061 | 600 | 600 ⁵ | 600 ⁵ | 600 | 600 | 600 | 600 |
| 1967..... | 3,252 | 600 | 600 ⁵ | 600 ⁵ | 600 | 600 | 600 | 600 |
| 1968..... | 3,537 | 600 | 600 ⁵ | 600 ⁵ | 600 | 600 | 600 | 600 |
| 1969..... | 3,817 | 600 | 600 ⁵ | 600 ⁵ | 600 | 600 | 600 | 600 |
| 1970..... | 4,052 | 1,700 | 2,300 | 600/1,200 | 625 | 625 | 625 | 625 |
| 1971..... | 4,302 | 1,700 | 2,300 | 600/1,200 | 675 | 675 | 675 | 675 |
| 1972..... | 4,671 | 2,050 | 2,800 | 750/1,500 | 750 | 750 | 750 | 750 |
| 1973..... | 5,185 | 2,050 | 2,800 | 750/1,500 | 750 | 750 | 750 | 750 |
| 1974..... | 5,637 | 2,050 | 2,800 | 750/1,500 | 750 | 750 | 750 | 750 |
| 1975..... | 6,052 | 2,350 | 3,400 | 750/1,500 | 750 | 750 | 750 | 750 |
| 1976..... | 6,631 | 2,450 | 3,600 | 750/1,500 | 750 | 750 | 750 | 750 |
| 1977..... | 7,269 | 2,950 | 4,700 | 750/1,500 | 750 | 750 | 750 | 750 |
| 1978..... | 8,122 | 2,950 | 4,700 | 750/1,500 | 750 | 750 | 750 | 750 |
| 1979..... | 9,032 | 3,300 | 5,400 | 1,000/2,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| 1980..... | 9,949 | 3,300 | 5,400 | 1,000/2,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| 1981..... | 11,020 | 3,300 | 5,400 | 1,000/2,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| 1982..... | 11,589 | 3,300 | 5,400 | 1,000/2,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| 1983..... | 12,217 | 3,300 | 5,400 | 1,000/2,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| 1984..... | 13,344 | 3,300 | 5,400 | 1,000/2,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| 1985..... | 14,171 | 3,430 | 5,620 | 1,040/2,080 | 1,040 | 1,040 | 1,040 | 1,040 |
| 1986..... | 14,916 | 3,560 | 5,830 | 1,080/2,160 | 1,080 | 1,080 | 1,080 | 1,080 |
| 1987..... | 15,653 | 4,440 | 7,560 | 1,210/2,440 | 1,900 | 1,900 | 1,900 | N/A |
| 1988..... | 16,630 | 4,950 | 8,900 | 750/1,200 | 1,950 | 1,950 | 1,950 | N/A |
| 1989..... | 17,705 | 5,100 | 9,200 | 750/1,200 | 2,000 | 2,000 | 2,000 | N/A |
| 1990..... | 18,695 | 5,300 | 9,550 | 800/1,300 | 2,050 | 2,050 | 2,050 | N/A |
| 1991..... | 19,196 | 5,500 | 10,000 | 850/1,300 | 2,150 | 2,150 | 2,150 | N/A |
| 1992..... | 20,137 | 5,900 | 10,600 | 900/1,400 | 2,300 | 2,300 | 2,300 | N/A |

N/A—Not applicable.

¹U.S. Department of Commerce, Bureau of Economic Analysis (BEA). This column is supplied solely to lend perspective to the filing requirements data. The definition of income by BEA (i.e., personal income) differs slightly from that used by IRS to determine filing requirements.

²The filing requirement shown for 1913 to 1920 was based on net income (gross income less deductions, before subtracting personal exemptions).

³The filing requirement shown for 1921 to 1939 was based on net income; an additional filing requirement of \$5,000 of "gross income," regardless of marital status, applied as well.

⁴A tax return had to be filed for 1943 if the taxpayer had a tax liability for 1942, regardless of size of income for 1943.

⁵Filing requirement and additional amount for age 65 or over applied separately to each spouse.

⁶If net income exceeded \$5,000, the value of the secondary taxpayer's exemption was reduced to \$1,000.

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Figure C

Availability of Data on the Individual Income Tax

| Name of product | Description | First tax year | Most recent tax year | Source of most recent tax year ¹ | Future updates planned |
|---|---|-------------------|----------------------|--|---|
| Statistics of Income, Individual Income Tax Returns | Publication showing sources and size of income, deductions, exemptions, and tax computation | 1916 | 1991 | Publication 1304, U.S. Government Printing Office | Annually |
| Individual Income Tax Returns, Preliminary Data | SOI Bulletin article with income, deductions, and tax data based on returns filed through September | 1928 ² | 1992 | Publication 1136, U.S. Government Printing Office Spring 1994 issue | Annually |
| Sales of Capital Assets Study | SOI Bulletin article showing asset types, holding periods, and capital gains and losses | 1936 ² | 1981 | Publication 1136, Winter 1985-1986 issue, available from Director, SOI | A panel of returns with sales of capital assets for 1985-1992 is currently being readied; first data release scheduled for 1995 |
| Sole Proprietorships | SOI Bulletin article with business income and deductions from Schedule C, by industry | 1957 ² | 1991 | Publication 1136, U.S. Government Printing Office Fall 1993 issue | Annually |
| Individual Public Use Tax File | Disclosure-proofed micro-data file of Forms 1040, 1040A, and 1040EZ | 1960 | 1990 | Available from Director, SOI | Annually |
| ZIP Code Data | Tabulation, on tape, showing number of returns, exemptions, income, and tax by 5-digit ZIP Code | 1966 | 1991 | Available from Director, SOI | As permitted by resource availability |
| Taxpayer Usage Study (TPUS) | Weekly report during filing season | 1969 | 1993 | Available from Director, SOI, no charge | Annually |
| W-2 Study | Salaries and wages, shown separately for husbands and wives, taken from Forms W-2 matched to tax returns | 1969 ³ | 1983 | Publication 1136, Winter 1987-88 issue, available from Director, SOI | Updates planned for 1989 and 1993 |
| State migration data | Tabulations on paper or diskette, showing flows of returns and exemptions for pairs of years (based on address changes) | 1973-74 | 1991-92 | Available from Director, SOI | Annually |
| High-income returns, taxable and nontaxable | Analysis of taxation of high-income taxpayers under various income and tax concepts | 1974 | 1990 | Publication 1136, U.S. Government Printing Office Winter 1993-1994 issue | Annually |

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Figure C

Availability of Data on the Individual Income Tax--Continued

| Name of product | Description | First tax year | Most recent tax year | Source of most recent tax year ¹ | Future updates planned |
|---|---|-------------------|----------------------|---|------------------------|
| County migration data | Tabulations on paper or tape, showing flows of returns and exemptions for pairs of years (based on address changes) | 1978-79 | 1991-92 | Available from Director, SOI | Annually |
| County income data | Tabulations on paper or tape, showing number of returns, types of income, and adjusted gross income | 1982 | 1991 | Available from Director, SOI | Annually |
| State data by size of adjusted gross income from Individual Master File | Tabulations showing selected income and tax items for each State | 1986 ⁵ | 1992 | Publication 1136, U.S. Government Printing Office, each issue | Annually |
| Early Tax Estimates (ETE) | Selected income and tax items for timely-filed returns | 1992 | 1992 | Publication 1136, U.S. Government Printing Office Fall 1993 issue | Annually |

¹Cost available upon request, unless otherwise indicated.

²Originally published as a separate report.

³Originally published as part of Statistics of Income--Individual Income Tax Returns.

⁴Issued as a separate report for 1974-1978; as part of Statistics of Income--Individual Income Tax Returns for 1979-1988.

⁵State data by size of income were included in Statistics of Income--Individual Income Tax Returns for 1916-1981.

long-term gains was introduced: an optional Schedule D could be used to report gains from property held for more than 2 years, and these amounts were subject to a special 12.5 percent tax, not the normal tax and surtax. From then on until 1988, some sort of special treatment was available for capital gains, either in the form of a partial exclusion or in a cap on the maximum applicable tax rate. For 1991, after a 3-year hiatus, the rate cap was reintroduced.

The purpose of the special sales of capital assets (SOCA) studies, produced for the first time for 1936, is to tabulate data on sales price, cost, expense of sale, gross gain or loss, and holding periods for various categories of assets traded [5]. Beginning with Tax Year 1985, the SOI Division has been collecting data annually for a "panel" of taxpayers (i.e., the same taxpayers for successive years). Release of data from this panel study, which will show how taxpayers reacted to a number of changes in the tax law governing sales of capital assets, should begin sometime in 1995.

Sole Proprietorship Data

It is difficult to pinpoint the exact year the sole proprietorships program began. As early as 1917, the second SOI report contained a small table classifying "business operations netting \$2,000 and over" by ten broad industrial divisions, and showing number of returns,

gross sales, business expenses, and net income for each. Sole proprietorship tables were provided each year through 1939, and sporadically between 1940 and 1956. More detailed data on sole proprietorships became available when they were featured in a separate report for Tax Year 1957, entitled *Statistics of Income--U.S. Business Tax Returns* [6]. The original report showed, in separate but similar tables, data for sole proprietorships, partnerships, and corporations. Data on sole proprietorships classified by industry, showing gross and net income and amounts and types of business deductions, are currently published in the *Statistics of Income Bulletin*.

Public Use Files

In the early 1960's, as a result of the increasing power and availability of computers, the research community made an urgent appeal to what was then called the "Statistics Division" to make a representative sample of income tax returns available for the purpose of "modelling" proposed tax law changes, i.e., applying the proposals to the earlier years' return records and determining the characteristics of the individuals who would be affected, the revenue effect, and other information. While IRS must, by law, keep information about individual taxpayers confidential, a determination was made that it would be possible to limit the data items released in such a way that the user

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would not be able to link the return to the taxpayer who had filed it, and the first public use file was released for Tax Year 1960—a subsample of the returns used to produce the regular SOI report for that year. Beginning in the early 1980's, with the increasing availability of computerized data from various sources, a determination was made to further disguise some of the data items by "blurring" them (averaging them over a number of tax returns) [7]. The public use file is made available annually.

The Taxpayer Usage Study (TPUS)

In preparation for the 1970 filing season (returns for 1969), a determination was made within the Internal Revenue Service that some statistical feedback was needed as returns were being filed, rather than at the end of the filing season. Thus was born the Taxpayer Usage Study (TPUS), which sampled returns in the service-center mail rooms, prior to any other IRS processing. The sample size for this study is relatively small (usually around 10,000 returns). Data are released weekly during the filing season, beginning in early February, and include information on the reporting of new items and the filing of new forms or schedules. Standard items included every year are form type, method of preparation (by hand, typewriter, or computer); and use of paid preparers. The two-page TPUS reports are available free of charge during the filing season from SOI's Statistical Information Services (SIS) desk.

W-2 Studies

Before Tax Year 1969, the sole source of individual income statistics published in SOI was the tax return—Form 1040 and, when applicable, shortened versions thereof, such as 1040A and 1040EZ. For 1969, and in periodic years thereafter, a new source was added: Form W-2, the wage and tax withholding statement issued by employers to employees. The major advantage of the W-2 was that it separated the salaries and wages of the two taxpayers filing a joint return. W-2 data for 1969 and 1974 were included in the regular *Statistics of Income* reports. Thereafter, they were presented in articles in the *SOI Bulletin*. Future plans include use of Forms 1099 to separate other sources of income as well. Forms 1099 are used by payers of non-wage income, including interest, pensions, dividends, social security benefits, and many others, to report these amounts to taxpayers and to the IRS.

High-Income Returns, Taxable and Nontaxable

The Tax Reform Act of 1976 mandated the creation of an annual report which would further analyze the taxation of high-income taxpayers (generally defined as those with

incomes of \$200,000 or more). For purposes of this report, "income" was to be redefined, to the extent possible, to include amounts which were excluded from "adjusted gross income," the tax return income concept used in most SOI tables. On the other hand, "investment interest" (i.e., interest on loans taken for the purpose of producing investment income) was to be deducted from the redefined income concept. (On the tax return, this is an itemized deduction which is used to reduce taxable income, but not adjusted gross income.) *High-Income Returns*, which began as a separate report issued by the Department of the Treasury for Tax Years 1974 through 1978, was then incorporated into the regular *Individual Income Tax Returns* report for 1979 through 1988, and is now presented in the *SOI Bulletin*. Beginning with the report for 1984, the concept of "taxability" was further modified to show, in separate tables, taxpayers subject to U.S. taxation and taxpayers subject to world-wide taxation. In each of these reports, part of the analysis is devoted to showing the major reasons high-income returns become nontaxable.

Geographic Data from the Individual Master File

Most SOI statistical reports are based on data from samples of tax returns that have been subjected to a good deal of testing and perfecting, which are then weighted to represent the population as a whole. However, these samples are generally too small to yield reliable data at the sub-national level. Therefore, SOI frequently uses the whole Individual Master File (IMF)—the IRS's administrative file of all individual taxpayers—to produce geographic data (albeit in less detail than the data available at the national level). The first effort of this kind was done for Tax Year 1966, the year the IMF was first established on a nationwide basis, and showed numbers of returns and amounts of income and tax by three-digit and five-digit ZIP Code. ZIP Code data at the three-digit level were subsequently repeated for 1969, 1979, and 1982. At the five-digit level, ZIP Code data were again presented for 1969 and 1991. Beginning with Tax Year 1986, the IMF has also been used to produce data by State and size of adjusted gross income, which are shown in each *SOI Bulletin*.

In addition, the Internal Revenue Service gives the Bureau of the Census an extract of selected items from the IMF each year to produce reports it uses as input to its demographic estimates program; these reports are, in turn, made available to the public by the SIS desk. One shows number of returns and amounts of income reported by taxpayers in each county in the United States. For the other two reports, Census matches together returns filed by individual taxpayers in 2 successive years, and, based on

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changes in taxpayer address, tabulates migration flows between States and between counties for pairs of years. Geographic data are available both in hard copy and on magnetic medium.

Early Tax Estimates (ETE)

For Tax Years 1980 through 1988, and again for Tax Year 1991, the Taxpayer Usage Study (TPUS) sample, described earlier in this article, was used at the end of the filing season to produce some limited summary data on timely-filed returns, which were published in the *SOI Bulletin*. While these data lacked information on a significant proportion of filers with complicated returns and high incomes, who tend to file late, they did serve as early indicators of changes in incomes and taxes when compared to similar data from the previous year. The role of making these early estimates has now been shifted from TPUS to ETE, a subsample of the sample which is eventually used to produce the regular SOI report. To IRS, ETE has three advantages over TPUS: first, statistical editing of income and tax amounts for this sample represents a cost saving, since they would eventually be edited for SOI in any case; second, since the sample is selected on the last four digits of the primary taxpayer's social security number (SSN), a large portion of the sample is a "panel" (i.e., the same taxpayers for successive years), thus reducing year-to-year variability; and third, because the ETE sample is twice as large as the TPUS sample, the sampling variability for all estimates is lower.

Future Plans

SOI entered the computer age in the mid-1950's, when it started compiling some of its files and running some of its tables on one of the Census Bureau's two "UNIVAC I" computers. With the release of the 1960 Individual Public Use file began the era of the creation of data for the public in magnetic medium. It is anticipated that many future changes in the SOI program will be driven by changes in computer technology.

One of our most recent innovations, the **SOI Electronic Bulletin Board**, was established in 1992. Through the bulletin board, users worldwide can access select SOI data 24 hours a day. Currently, the SOI bulletin board contains 275 files.

Use of the SOI bulletin board will further facilitate customers' access to SOI data without the necessity of having to contact the SIS staff or other IRS technicians. Another advantage of the board is the timeliness of the data and the fact that it is accessible constantly, which should prove valuable to customers who work outside of

official Government hours.

The bulletin board recently joined FedWorld Gateway System, a system that allows individuals to log on (by telephone or Internet Wide Area Network) to one electronic bulletin board, then without dialing any other number, log on to over 120 other Government bulletin boards. The SOI bulletin board now has a 486/33 computer with 600 megabytes of storage space and four telephone lines. Future plans include FAX-back capabilities and a CD-ROM.

Notes and References

- [1] *Statistics of Income—1916*, 1918. Beginning with Tax Year 1934, data on corporations (from Forms 1120) were published in a separate volume, and the title of the publication with data from Forms 1040 became *Statistics of Income, Individual Income Tax Returns*.
- [2] Windheim, Barry, "Individual Income Tax Return Data by State, 1986-1988," *Statistics of Income Bulletin*, Fall 1990, Volume 10, Number 2.
- [3] The "number of returns" figures are not completely comparable over the entire period covered. From 1913 to 1927, deficit returns were excluded from processing (and thus from the statistics); however, returns of estates and trusts with taxable incomes were included with individual income tax returns for tabulation purposes. From 1928 on, individual returns with deficits were included in the statistics. From 1938 on, estate and trust returns were excluded.
- [4] While there is no fool-proof method of distributing the decrease in exemptions between the tax law change and the change in the reporting requirement, the following approximation should yield reasonably accurate results. For 1987, there were 9.2 million individuals who filed without claiming a taxpayer exemption, indicating that they were being claimed as dependent exemptions on another taxpayer's return. Of these, 8 million had characteristics that would have caused them to file for 1986 as well (based either on presence of withholding or amount and type of income). It was assumed that all 8 million were dependents in 1986 and did, in fact, file for that year, thereby claiming double exemptions.
- [5] *Statistics of Income—1936, Supplement, Individual Incomes, Section IV: Capital Gains and Losses*, 1940.

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[6] *Statistics of Income—1957-58, U.S. Business Tax Returns*, 1960. Sole proprietorship data were then published in separate Statistics of Income reports for the next 24 years.

[7] Strudler, Michael; Oh, H. Lock; and Scheuren, Fritz. "Protection of Taxpayer Confidentiality with Respect to the IRS Tax Model," *Statistics of Income and Related Administrative Record Research: 1986-1987*, pp. 279-285.